annual report | 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS
March 30, 2007

Following is management's discussion and analysis (MD&A) of the results of operations for Imaging Dynamics Company Ltd. (IDC or the Company) for the year ended December 31, 2006 and its financial position as at December 31, 2006. This MD&A should be read in conjunction with the Audited Consolidated Financial Statements and the related consolidated notes thereto. For additional information and details, readers are referred to the quarterly financial statements and quarterly MD&A for 2006 and the Company's Annual Information Form (AIF), all of which are published separately and are available at www.sedar.com.

This MD&A is intended to provide readers with the information that management believes is required to gain an understanding of IDC's current results and to assess the Company's future prospects. Accordingly, certain sections of this report contain forward-looking statements that are based on current plans and expectations. These forward-looking statements are affected by risks and uncertainties that are discussed in this document, as well as in the AIF, and that could have a material impact on future prospects. Readers are cautioned that actual events and results will vary.

In this MD&A we describe certain income and expense items that are unusual or non-recurring. These terms are not defined by generally accepted accounting principles (GAAP). Our usage of these terms may vary from the usage adopted by other companies. We provide this detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results. In addition, terms such as income before interest, taxes, depreciation and amortization (EBITDA) and backlog are not defined by GAAP, and our use of such terms or measurement of such items may vary from that of other companies. Where relevant, and particularly for earnings-based measures, we provide tables in this document that reconcile non-GAAP measures used to amounts reported on the face of the consolidated financial statements.

Introduction

IDC is a medical technology Company that has been an innovative force in the fast-growing field of Digital Radiography (DR) equipment. IDC offers an extensive family of products, which can be found in many leading medical and healthcare facilities, throughout 36 countries worldwide. IDC was founded in May of 1995. Our corporate headquarters is located in Calgary, Alberta, Canada. The Company is publicly traded on the Toronto Stock Exchange under the symbol IDL.

Special Note Regarding Forward Looking Information

Certain statements in the MD&A, other than statements of historical fact, may include forward-looking information that involves various risks and uncertainties. These can include, without limitation, statements based on current expectations involving a number of risks and uncertainties related to all aspects of the medical imaging industry. These risks and uncertainties include, but are not restricted to, continued increased demand for the Company's products, the Company's ability to maintain its technological and competitive advantages in the field of digital radiography, the Company's ability to attract and retain key employees, the enforceability of the Company's patents, the Company's ability to raise capital on acceptable terms when needed, and the availability of key components. These uncertainties may cause actual results to differ from information contained herein. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from those anticipated in such statements. These forward-looking statements are based on the estimates and opinions of Management on the dates they are made and are expressly qualified in their entirety by this notice. The reader is cautioned not to rely on these forward-looking statements.

Selected Financial Information and Financial Summary

	Three Months Ended		Twelve Months Ended	
	December 31 2006	December 31 2005	**December 31 2006**	December 31 2005
Revenues	**$ 12,533,867**	$ 8,243,604	**$ 39,030,402**	$ 28,878,669
Gross Margin	**$ 4,247,937**	$ 3,977,178	**$ 14,047,378**	$ 12,754,573
Net (loss) income before other items	**$ (4,229,361)**	$ (662,539)	**$ (7,888,357)**	$ 1,137,707
Net (loss) income	**$ (10,588,446)**	$ (640,339)	**$(14,006,846)**	$ 1,348,484
Net (loss) income per share before other items				
Basic	**$ (0.07)**	$ (0.01)	**$ (0.14)**	$ 0.02
Diluted	**$ (0.07)**	$ (0.01)	**$ (0.14)**	$ 0.02
Net (loss) income per share				
Basic	**$ (0.19)**	$ (0.01)	**$ (0.25)**	$ 0.03
Diluted	**$ (0.19)**	$ (0.01)	**$ (0.25)**	$ 0.02

Summary of Quarterly Results

	2006 YTD	2006 Q4	2006 Q3	2006 Q2	2006 Q1
Revenue	**$39,030,402**	**$12,533,867**	**$7,343,979**	**$8,924,481**	**$10,228,075**
Gross Profit	**14,047,378**	**4,247,937**	**3,066,099**	**2,998,092**	**3,735,250**
Gross Profit %	**36.0%**	**33.9%**	**41.7%**	**33.6%**	**36.5%**
Net (loss) income before other items	**(7,888,357)**	**(4,229,361)**	**(2,034,815)**	**(1,390,943)**	**(233,238)**
Net (loss) income	**(14,006,846)**	**(10,588,446)**	**(1,970,499)**	**(1,284,778)**	**(163,123)**
Net (loss) income per share					
- Basic	**(0.25)**	**(0.19)**	**(0.03)**	**(0.02)**	**0.00**
- Diluted	**(0.25)**	**(0.19)**	**(0.03)**	**(0.02)**	**0.00**
Total Assets	**47,382,391**	**47,382,391**	**55,683,036**	**53,458,775**	**50,643,091**
Long-term Liabilities	**82,697**	**82,697**	**91,827**	**99,725**	**107,542**

	2005 YTD	2005 Q4	2005 Q3	2005 Q2	2005 Q1
Revenue	$28,878,669	$8,243,604	$8,156,334	$7,414,553	$5,064,178
Gross Profit	12,754,573	3,977,178	3,366,114	3,174,046	2,237,235
Gross Profit %	44.2%	48.2%	41.3%	42.8%	44.2%
Net (loss) income	1,348,484	(640,339)	557,518	1,004,163	427,143
Earnings per Share					
- Basic	0.03	(0.01)	0.01	0.02	0.01
- Diluted	0.02	(0.01)	0.01	0.02	0.01
Total Assets	35,278,406	35,278,406	33,553,594	30,586,531	29,911,508
Long-term Liabilities	142,050	142,050	149,004	163,068	99,450

Results of Operations

Net Income

Net loss before interest and other items for the fourth quarter ended December 31, 2006 was $4,229,361 or $0.07 loss per share compared to $662,539 or $0.01 loss per share. Net loss before interest and other items for the year ended December 31, 2006 was $7,888,357 or $0.14 loss per share, compared to a net income before interest and other items of $1,137,707 or $0.02 of basic income per share for the preceding year.

Net loss for the fourth quarter ended December 31, 2006 was $10,588,446 or $0.19 loss per share compared to $640,339 or $0.01 loss per share. Net loss for the year ended December 31, 2006 was $14,006,846 or $0.25 loss per share, compared to a net income of $1,348,484 or $0.03 of basic income per share for the preceding year.

Due to a loss position in fiscal 2006, the calculation of diluted loss per share is anti-dilutive.

The net loss for the year ended December 31, 2006 resulted primarily from lower gross margins, increased operating costs, allowance for doubtful receivables and a one-time write down of deferred development costs and inventory.

Sales

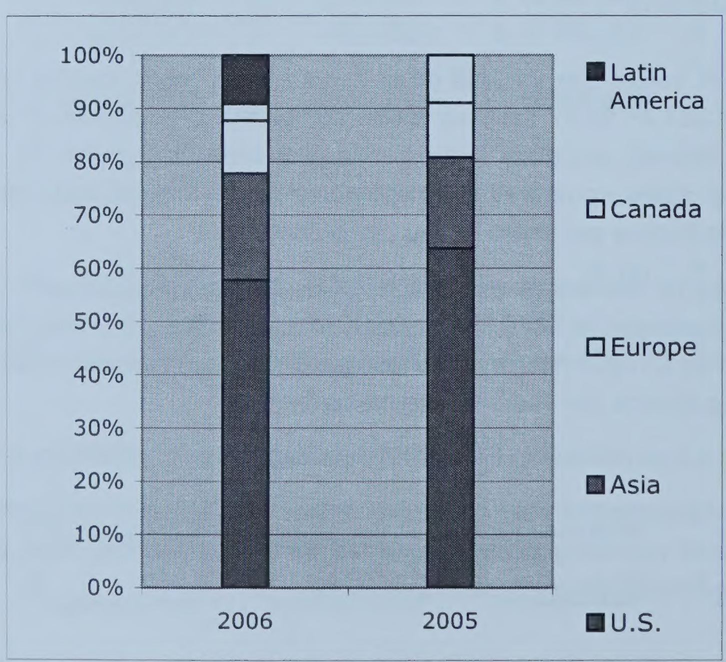
	2006	2005	2004
Quarter 1	**$ 10,228,075**	$ 5,064,178	$ 2,916,697
Quarter 2	**8,924,481**	7,414,553	533,977
Quarter 3	**7,343,979**	8,156,334	1,942,244
Quarter 4	**12,533,867**	8,243,604	1,039,821
	$ 39,030,402	$ 28,878,669	$ 6,432,739

Fiscal 2006 was another record revenue year for the Company. Revenues increased by 35% when compared to the prior year. Revenue for the quarter ended December 31, 2006 increased by 52% compared to the same quarter last year. The primary reasons for the increase in revenues, include the Xplorer line of products gaining broad scale recognition, the addition of the Xaminer product in the second quarter of 2006 and the increased sales force over 2005. IDC is being seriously considered in many more buying decisions.

IDC has been able to take advantage of its strong technical performance and price advantage by leveraging a very motivated and qualified distribution channel in the United States combined with successful OEM agreements in China and Europe. IDC continued to aggressively pursue additional distribution opportunities in 2006, especially in new and emerging marketplaces. In addition, the Company's strategy to diversify its product offering through the development of new products such as the Ortho-XP, Xplorer 2200, Xplorer 1600 Plus and the Xaminer series opened up new markets, both geographically and vertically.

The following table describes the geographic breakdown of the booked sales:

The United States (US) remained the dominant market for IDC during 2006. The US accounted for 58% of total revenues in 2006 versus 64% in 2005. Asia remained the second largest market and increased to 19% in 2006 from 17% in 2005. Europe increased slightly to 13% verses 10% in 2005 and Canada reduced to 0% in 2006 from 9% in 2005. Latin America was a new market this year with 9% compared to Nil last year.



Distribution Strategy

IDC relies heavily on dealers, distributors and OEM partners for the sales of its products. The following table describes IDC's distribution and sales strategy in the different geographies:

Country	# of Dealers 2006	# of Dealers 2005	# of OEM Partners 2006	# of OEM Partners 2005
Canada	2	2	0	0
USA	41	33	5	1
Asia / Pacific	10	5	6	1
Europe	8	5	4	1
Latin America	12	3	3	1
Middle East	13	3	0	0
Other	3	0	0	0
Total	89	51	18	4

Gross Profit

	2006	2005	2004
Quarter 1	**$ 3,735,250**	$ 2,237,235	$ 1,402,752
Quarter 2	**2,998,092**	3,174,046	242,079
Quarter 3	**3,066,099**	3,366,114	910,974
Quarter 4	**4,247,937**	3,977,178	436,548
	$ 14,047,378	$ 12,754,573	$ 2,992,353

Gross profit for fiscal 2006 totaled $14,047,378 on $39,030,402 of sales for an average gross margin of 36.0%. Margins for fiscal 2005 were $12,754,573 on $28,878,669 of sales for an average gross margin of 44.2%.

Gross profit for the fourth quarter ended December 31, 2006 totaled $4,247,937 on $12,533,867 of sales for an average gross margin of 33.9%. Margins for the fourth quarter ended December 31, 2005 were $3,977,178 on $8,243,604 of sales for an average gross margin of 48.2%.

During the first half of the year, as a result of delays in the release of the Xaminer product line, margins were negatively impacted by the sale of Xplorer line products at Xaminer line pricing. The reduced margins continued to be impacted by the decline of the U.S. dollar versus the Canadian dollar and increased freight costs. The Company took some steps to mitigate the foreign exchange fluctuations by re-negotiating supplier contracts and aligning as many of the cost of goods sold related items in U.S. currency to build a stronger natural hedge. Also during the fourth quarter of 2006 there was a year-end inventory adjustment of approximately $800,000 that was recorded as cost of sales.

Sales and Marketing Expenses

	2006	2005	2004
Quarter 1	$ 1,747,961	$ 802,647	$ 450,373
Quarter 2	1,478,446	858,600	549,274
Quarter 3	2,290,015	1,006,359	664,933
Quarter 4	3,675,631	1,721,956	1,233,682
	$ 9,192,053	$ 4,389,562	$ 2,898,262

Sales and marketing expenses consist principally of salaries and other costs associated with the Company's sales force and marketing activities in the form of advertising, promotions and trade shows and post sales support and service.

Sales and marketing expenses for fiscal 2006 were $9,192,053, up from $4,389,562 in the preceding fiscal year. Sales and marketing expenses for fiscal 2006 as a percentage of sales were 24%, up from 15% in fiscal 2005.

Sales and marketing expenses for the fourth quarter ended December 31, 2006 were $3,675,631 up from $1,721,956 for the same period last year. Sales and marketing expenses for the fourth quarter of 2006 as a percentage of sales were 29% compared to 13% for the same period last year.

The increase is mainly due to an increase in sales force and related travel, (specifically, the addition of several personnel to support the Beijing China sales office since the second quarter of 2006 and the establishing of a new geographic presence in Latin America), additional marketing efforts on current products and increased presence at industry trade shows. In addition, the Company spent significant dollars on training new distribution partners and existing partners on new products. As well, expenses related to integrating IDC's technology into OEM positioning devices was significantly higher this year.

General and Administrative Expenses

	2006	2005	2004
Quarter 1	$ 827,015	$ 368,392	$ 226,277
Quarter 2	957,502	499,130	296,599
Quarter 3	1,007,927	694,756	352,838
Quarter 4	1,078,192	733,958	949,598
	$ 3,870,636	$ 2,296,236	$ 1,825,312

General and administrative expenses consist primarily of personnel costs and overhead expenses relating to the company's human resources, finance, legal, regulatory and administrative functions. General and administrative expenses for fiscal 2006 totaled $3,870,636 as compared to $2,296,236 for fiscal 2005.

General and administrative expenses for the fourth quarter ended December 31, 2006 was 1,078,192 compared to $733,958 for the same period last year. General and administrative expenses have increased as a direct result of the growth the Company has experienced over the last 12 months, both on a geographic dispersion and employee headcount basis. The Company has also experienced higher listing, regulatory and professional fees as a result of the TSX listing and costs relating to regulatory approvals to sell into various geographic regions.

Research and Development Expenses

	2006	2005	2004
Quarter 1	**$ 532,014**	$ 357,646	$ 241,175
Quarter 2	**527,111**	313,408	272,022
Quarter 3	**537,628**	249,174	383,843
Quarter 4	**763,407**	621,141	761,309
	$ 2,360,160	$ 1,541,369	$ 1,658,349

Research and Development expenses include personnel and related equipment costs to develop and support the Company's products. The Company expenses all research costs as they are incurred. Development costs are only capitalized if they meet the criteria set out by generally accepted accounting principles. The Company believes that investments in research are required to remain competitive.

Research and Development expenses for fiscal 2006 were $2,360,160, up from $1,541,369 for the same period last year. Research and Development expenses for the fourth quarter ended December 31, 2006 was $763,407 compared to $621,141 for the same period last year.

The Company's R&D efforts have been primarily focused on developing new software algorithms and modules that can either be sold as add on features to the existing product offerings or included to improve the performance of the technology. As an example, the Company is extending the functionality of its software to include a mini-pacs function so that it could be used in smaller clinics, veterinary offices and chiropractic practices. On the hardware front, efforts were put into extending the cooling range of the system by 15 degrees centigrade so that it could operate in non air-conditioned environments in developing countries. As a result of advances in CCD technology, the Company is developing a new line of detector heads that will have anti-blooming technology. Anti-blooming technology prevents pixel saturation and improves image quality as a result.

During the fourth quarter of 2006 the Company did not capitalize any of the development costs. For the year ended December 31, 2006, the Company capitalized $1,182,349 of development costs compared to $681,788 for the same period last year.

During the fourth quarter of 2006 the Company reviewed the carrying value of deferred development costs. Due to the intended launch of a new product line during 2007, $1,663,507 of deferred development costs were written down. The balance of the deferred development costs will be fully amortized during 2007.

Production and Manufacturing

	2006	2005	2004
Quarter 1	$ 348,163	$ 230,427	$ 247,413
Quarter 2	402,566	243,998	296,033
Quarter 3	539,825	220,049	419,330
Quarter 4	557,069	827,250	881,239
	$ 1,847,623	$ 1,521,724	$ 1,844,015

Production and manufacturing expenses for fiscal 2006 were $1,847,623, up from $1,521,724 for the same period last year. For the fourth quarter ended December 31, 2006 production and manufacturing expenses decreased to $557,069 from $827,250 for the same period last year. The year to date increase relates to introducing new product lines in 2006 from a research state to a design for manufacturing and assembly.

Warranty Expense

An estimate of warranty expense is booked at the time of sale and a reserve is set up on the balance sheet. Warranty expense for fiscal 2006 was $890,433, up from the $654,511 recorded in the preceding fiscal year. As a percentage of sales however, warranty expense increased slightly. Warranty expense for fiscal 2006 as a percentage of sales was consistent at 2.3% when compared to the same period last year. Warranty expense for the fourth quarter ending December 31, 2006 was $287,747 compared to $ 274,046 for the same period last year.

The Company has an industry leading warranty inclusion on its proprietary products. The Company reviews its estimate periodically to determine if an adjustment is necessary.

Stock-based Compensation

Stock-based compensation expense increased by $1,004,631 to $1,593,263 for the year ended December 31, 2006 from $588,632 at December 31, 2005. This increase is due to the increase in the weighted average fair value of options which was $2.29 for the year ended December 31, 2006 compared to $1.89 at December 31, 2005.

Amortization

Amortization expenses for the year-ended ended December 31, 2006, were $919,328 and $491,083 for the year ended December 31, 2005. The increases were largely attributable to an increase in amortization of deferred development costs.

Interest Expense

Interest expense for fiscal 2006 was $329,725, up from the $130,895 booked in the preceding fiscal year. The majority of the interest expense relates to interest paid on the Company's line of credit and the interest incurred in managing the Company's foreign currency exposure with the use of banker's acceptances. The line of credit interest rate floats based on the prime rate.

Foreign Exchange gain / loss

The Company entered into forward contracts to normalize the impact of the foreign currency fluctuations. As at the December 31, 2006 all forward contracts had matured except for a forward foreign exchange contract for 19.7 million Japanese Yen at an exchange rate of $112.99 and maturing on January 16, 2006. As at December 31, 2006 the contract resulted in an unrealized loss of $8,859.

Inventory Write-down

Primarily due to introduction of a new product line one time write down of inventory of $4,776,213 was recorded in 2006.

Contractual Obligations

The following table summarizes our contractual obligations as at December 31, 2006, and the effect such obligations are expected to have on our liquidity and cash flows in future years. The table excludes amounts already recorded on the consolidated balance sheet as current liabilities and certain other purchase obligations discussed below:

	2007	2008	2009
Long-term debt	$ 14,013	$ -	$ -
Operating leases	13,159	13,159	8,097
Facility and auto leases	349,743	299,374	156,181
Other contractual obligations	13,346,219	17,150,388	4,002,974

Purchase orders for third party components, finished goods and other goods and services are not included in the above table. Management is not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. For the purpose of this table, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding on the Company and that specify all significant terms, including:

fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

The Company has entered into contracts for other outsourced services; however, the obligations under these contracts are not significant and the contracts generally contain clauses allowing for cancellation without significant penalty. The expected timing of payment of the obligations discussed above is estimated based on current information. The timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services, or for some obligations, changes to agreed-upon amounts.

Off-balance Sheet Arrangements

The Company does not have any transactions, arrangements or other relationships with unconsolidated entities that are likely to affect its operating results, its liquidity or capital resources. The Company has no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity or market or credit risk support, engage in leasing, hedging, research and development services, or other relationships that expose the Company to liability that is not reflected on the face of the consolidated financial statements.

Liquidity and Capital Resources

The Company's cash and cash equivalents totaled $5,901,192 at December 31, 2006, an increase of $233,819 over the $5,667,373 available at December 31, 2005. Working capital was $23,667,925 at December 31, 2006, an increase of $2,492,134 over the $21,175,791 of working capital at December 31, 2005.

The Company has a revolving credit facility with a Canadian Chartered Bank for $6.5 million, which can be utilized as overdraft or in the form of banker's acceptances. The facility allows for a borrowing limit up to the aggregate of 75% of accounts receivable acceptable to the bank, 90% of Export Development Canada insured accounts receivable and 50% of inventory up to $1,000,000. Interest is charged at the bank's prime plus 1.50% on overdraft with fees on letters of guarantee and banker's acceptances quoted at the time of issue plus a stamping fee of 3% per annum.

Outstanding Share Capital

IDC is authorized to issue an unlimited number of common shares and an unlimited number of non-voting redeemable preferred shares without demand or par value and which do not deem an entitlement to dividends. The following securities of IDC were outstanding as at December 31, 2006:

- 58,460,987 common shares;
- 5,693,654 stock options.

Critical Accounting Policies and Estimates

General

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are based upon management's historical experience and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates.

Revenue Recognition

Revenue is recognized when the Company's product is shipped, the title is transferred and collection is reasonably assured.

Substantially all the revenue earned is the result of equipment sales. To date, very little revenue is derived through parts and/or service. Revenue with respect to the performance of services is recognized when the services are performed and collection is reasonably assured.

The Company uses an indirect distribution strategy whereby substantially all of the Company's revenues are earned through dealers, distributors and original equipment manufacturer (OEM) partners. The Company may offer extended terms to the dealers as closing incentives and to assist them in long sale cycle situations. The dealers and OEM's are responsible for installation and after sales service to the end user. Once the equipment is shipped and title has transferred to the dealer or OEM (FOB Company shipping point), the Company does not have any contractual obligation to ensure the equipment's proper installation and functioning. The only ongoing obligation of the Company is to provide a parts only warranty on manufacturing defects and the warranty is only extended to the dealer. Deposits received prior to shipment are reflected as deferred revenue.

Accounts Receivable

Accounts receivable increased to $21,222,060 at the end of the year from $16,053,945 at December 31, 2005, an increase of $5,168,115 on $39,030,402 in year-to-date sales. The Company had trade day's sales outstanding (DSO) for the year of 192 compared to 203 for 2005. A summary of DSO by quarter is as follows:

	Full Year	Q4	Q3	Q2	Q1
DSO 2006	192	149	264	228	182
DSO 2005	203	179	162	137	147

During the seeding stage and as first of in new geographies, the Company had offered extended payment terms. These extended payment terms ranged from offering an additional 30 days to an additional 150 days on the standard 30-day terms. These more favorable terms were used as incentives for establishing an IDC presence in regions where the Company was not well known. Over the last number of months, the Company's terms and conditions have been changed substantially to help reduce the DSO number and does not generally entertain extended payment terms.

The Company monitors aging of accounts receivable on a regular basis and has established a process to collect overdue receivables on a timely and effective manner.

Subsequent to year end and as at date of the MD&A, the Company has collected $9 million or 43% of the amount outstanding on December 31, 2006.

The following table is a geographic breakdown of the accounts receivable:

	2006	2005
Canada	9.2%	14.6%
USA	52.1%	73.3%
Asia Pacific	18.7%	3.9%
Europe, Middle East, Africa and India	8.3%	8.2%
Latin America	11.7%	0.0%

Many of the sales in foreign countries, especially Asia, Latin America and the Middle East are handled through either guaranteed letters of credits or wire transfers prior to and shortly after shipment. Foreign partners are generally large dealers or established OEM partners who are able to provide guaranteed letters of credit or quick payments. The Company evaluates the credit history of foreign partners on a periodic basis and adjusts the terms of payments accordingly.

Allowance for doubtful accounts and bad debts

Accounts receivable include amounts receivable for normal terms and extended terms, which are generally made to credit worthy purchasers. An allowance for doubtful debts of $872,660 (2005 – Nil) has been provided during the year.

Valuation of intangible assets

The Management assesses the impairment of identifiable intangibles, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets are stated at cost less accumulated amortization and are comprised of licenses, patents and deferred development costs. Unforeseen events, changes in circumstances and market conditions, and material differences in the value of intangible assets due to changes in estimates of future cash flows could affect the fair value of the Company's assets and require an impairment charge. Intangible assets are reviewed quarterly to determine if any events have occurred that would warrant further review. “Patents” include all costs necessary to acquire intellectual property such as patents and registered trademarks, as well as legal costs arising out of litigation relating to the assertion of any Company-owned patents.

Warranty

Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information on the nature, frequency, and average cost of warranty claims. Management studies trends of warranty claims and takes action to improve product quality and minimize warranty claims.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, current income taxes are recognized for the estimated income tax payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and the benefit of losses and other deductions carried forward for tax purposes that are more than likely to be realized. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Stock-Based Compensation

The Company has a stock option plan that is described in the consolidated financial statements. The fair value of any stock options granted to directors, officers and employees is recorded as an expense over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of the stock-based compensation is determined using the Black–Scholes option pricing model and management's assumptions. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Financial Instruments

The Company is exposed to fluctuations in interest rates and currency exchange rates. The Company, when appropriate, may utilize financial instruments to manage its exposure to these risks.

Interest rate risk

The Company is exposed to changes in interest rates as a result of the demand loan, bearing interest of the Company's lenders' prime rate.

Foreign currency risk

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar, and other currencies with respect to assets, sales and purchases. The Company monitors fluctuations and takes action, if deemed necessary to mitigate its risks.

On October 5, 2005, the Company entered into a forward foreign exchange contract for $3.5 million U.S. at an exchange rate of 1.1798 and maturing on January 5, 2006. As at December 31, 2005, the contract resulted in an unrealized gain of $71,050. This amount has been grouped within accounts receivable on the consolidated balance sheet and netted against the foreign exchange loss on the consolidated statement of operations and deficit.

On January 6, 2006, the Company entered into a forward foreign exchange contract for 19.7 million Japanese Yen at an exchange rate of 112.99 and maturing on January 16, 2007. As at December 31, 2006, the contract resulted in an unrealized loss of $8,859. This amount has been grouped within payables and accruals on the consolidated balance sheet and netted against the foreign exchange gain on the consolidated statement of operations and deficit.

Credit risk

Accounts receivable include amounts receivable for normal terms and extended terms, which are generally made to credit worthy or well established purchasers. The Company uses an indirect distribution strategy whereby substantially all of the Company's revenues are earned through dealers, distributors and OEM partners. The Company may offer extended terms to the dealers as closing incentives and to assist them in long sale cycle situations. Most of the Company's distribution partners have income streams from various sources and have an established history of providing goods and services to the health care industry. The Company does not usually sell to the

end user and as such has limited recourse in collecting any delinquent balances. In cases where collection is in question, the Company has the ability to remotely disable the equipment (in cases where an end user has not paid and internet connection is established), not provide any warranty support or warranty parts to a dealer that has not paid, remove the dealer as qualified IDC dealer as well as any and all legal recourse measures. Accordingly, the Company views credit risks on these amounts as normal course of business however an allowance for doubtful accounts of $872,660 (Note 3) has been provided during the year.

The Company is exposed to losses in the event of non-performance by counter-parties to these consolidated financial instruments. The Company deals with major institutions and believes these risks are minimal.

BUSINESS RISKS

Key Personnel

The digital radiography industry involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The success of the Company is dependent on the services of its senior management. The experience of these individuals will be a factor contributing to the Company's continued success and growth. The loss of one or more of its key employees could have a material adverse effect on the Company's operations and business prospects. In addition, the Company's future success will depend in large part on its ability to attract and retain additional highly skilled technical, management, sales and marketing personnel. There can be no assurance that the Company will be successful in attracting and retaining such personnel and the failure to do so could have a material adverse effect on the Company's business, operating results and financial condition.

Protection of Intellectual Property

Although the Company expends significant resources and efforts to patent its discoveries and innovations, there can be no assurances that any of Company's patent applications will result in the issuance of patents, or any patents issued to the Company will provide it with adequate protection or any competitive advantages, or that such patents will not be successfully challenged by third parties. The Company cannot be assured that competitors will not independently develop products similar to the Company's products or manufacture products designed to circumvent the exclusive patent rights granted to the Company. Further, the Company may need to incur significant expenditures in prosecuting claims against others whom it believes are infringing on its rights and by defending claims of intellectual property infringement brought by its competitors and others.

Although the Company does not believe that its products infringe the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims will not be asserted or prosecuted against the Company or that any such assertions or prosecutions will not materially

adversely affect the Company's business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, the Company could incur significant costs and diversion of resources with respect to the defense thereof which could have a material adverse affect on the Company’s business, financial condition or results of operations.

Competition

Technological competition is intense in the industry in which the Company operates. The Company may not be able to compete successfully against current and future competitors, and the competitive pressures the Company faces could harm its business and prospects. The market for Digital Radiography is relatively new and is highly competitive. The level of competition is likely to increase as current competitors improve their product offerings and as new participants enter the market. Many of the Company’s current and potential competitors have longer operating histories, larger customer bases, greater name and brand recognition and significantly greater financial, sales, marketing, technical and other resources than the Company. Additionally, these competitors have research and development capabilities that may allow them to develop new or improved products that may compete with products the Company markets and distributes. New technologies and the expansion of existing technologies may also increase competitive pressures on the Company. Increased competition may result in reduced operating margins as well as loss of market share. This could result in decreased usage of the Company's products and may have a material adverse affect on the Company's business, financial condition and results of operations.

Developing Markets

The market for the Company’s product is relatively new and continues to evolve. If the market for the Company’s product fails to develop and grow, or if the Company’s product does not gain market acceptance, the Company’s business and prospects will be harmed. The adoption and use of the Company's product will involve changes in the manner in which businesses have traditionally used such products. In some cases, the Company’s customers will have little experience with a product like that offered by the Company. The Company's ability to influence usage of its product by customers will be limited or non-existent. The Company will spend considerable resources educating potential customers about the value of the Company's product. It is difficult to assess, or predict with any assurance, the present and future size of the potential market for the Company's product, or its growth rate, if any. Moreover, the Company cannot predict whether its product will achieve market acceptance. The Company's ability to achieve its goals also depends upon rapid market acceptance of future enhancements to its product. Any enhancement that is not favorably received by customers may not be profitable and, furthermore, could damage the Company's reputation or brand name.

Rapid Technological Change

The digital radiography industry is susceptible to technological advances and the introduction of new products utilizing new technologies. Further, the digital radiography industry is also subject to changing industry standards, market trends and customer preferences, and to competitive pressures which can, among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins. The success of the Company will depend on its ability to secure technological superiority in its product and maintain such superiority in the face of new products. While the Company believes that its product will be competitive, no assurances can be given that the product of the Company will be commercially viable or that further modification or additional products will not be required in order to meet demands or to make changes necessitated by developments made by competitors which might render the product of the Company less competitive, less marketable, or even obsolete over time. The future success of the Company will be influenced by its ability to continue to develop new competitive products. Although the Company is committed to the development of new products and the improvement of its existing product, there can be no assurance that these research and development activities will prove profitable, or that products or improvements resulting therefrom, if any, will be successfully produced and marketed. The digital radiography industry is characterized by technological change, changes in user and customer requirements, new product introductions and new technologies and the emergence of new industry standards and practices that could render the Company’s technology obsolete or have a negative impact on sales margins the Company's product may command.

The Company’s performance will depend, in part, on its ability to enhance its existing product, develop new proprietary technology that addresses the sophisticated and varied needs of its prospective customers and respond to technological advances and emerging industry standards and practices on a timely and cost effective basis. The development of technology entails significant technical and business risks. There can be no assurance that the Company will be successful in using new technologies effectively or adapting its product to customer requirements or emerging industry standards.

Ability to Manage Future Growth

Future growth, if any, may cause a significant strain on the Company’s management and its operational, financial, human and other resources. The Company’s ability to manage growth effectively will require it to implement and improve operational, financial, manufacturing and management information systems and to expand, train, manage and motivate employees. These demands may require the addition of management and other personnel and the development of additional expertise. Any increase in resources devoted to research, product development and marketing and sales efforts without a corresponding increase in operational, financial, manufacturing and management information systems could have a material adverse effect on the Company’s business, financial condition and results of operations. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be

able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth.

Negative Cash Flow

A significant portion of the Company's financial resources will continue to be directed to the development of its products and to marketing activities. The success of the Company will ultimately depend on its ability to generate revenues from its product sales, such that the business development and marketing activities may be financed by revenues from operations instead of external financing. There is no assurance that future revenues will be sufficient to generate the required funds to continue such business development and marketing activities.

Exposure to Foreign Currencies

The Company will transact the majority of the export product revenues in US dollars, while a portion of the Company's operating expenses will be in Canadian dollars. The Company's exposure to exchange rate fluctuation is partly reduced due to purchasing a significant amount of component costs denominated in the same currency, acting as a natural hedge. The Company believes that continued expansion outside of Canadian markets is essential if we are to achieve our growth targets. This expansion will subject us to volatility associated with changes in the value of the Canadian dollar. We manage exchange rate risk principally through the use of foreign exchange contracts.

Fluctuations in other world currencies against the Canadian dollar will impact the Company's earnings and cash flows. The Company will continue to monitor its current and anticipated exposure to fluctuations in foreign currency exchange rates and enter into currency derivatives contracts to manage the exposure.

International Exposure

The Company will invest significant financial and managerial resources to expand its sales and marketing operations into the U.S. and internationally. The Company's intended international business will be subject to risks typical of an international business including, but not limited to:

- unexpected changes in regulatory requirements and trade barriers applicable to the Company's business;
- challenges in staffing and managing foreign operations, including employment laws and practices in jurisdictions with different legal systems and tax structures;
- seasonal reductions in business activity and economic downturns;
- longer payment cycles and problems in collecting accounts receivable;
- different technology standards; and

- reduced protection for intellectual property rights in certain countries in which the Company may operate.

Any of the foregoing difficulties of conducting business internationally could harm the Company's international operations and, consequently, its business and prospects.

Dependence on Third Party Suppliers

The Company has established relationships with certain third party suppliers upon whom it presently relies to provide certain key materials and components for completion of its product. In the event of the inability of these third parties to supply those materials and components in a timely manner or to supply materials and components that continue to meet the Company's quality, quantity or cost requirements, the Company will be required to purchase these materials and components from another supplier. If another supplier cannot be found who can supply the materials and components in a timely manner or that meet the Company's quality, quantity or cost requirements then the Company's ability to manufacture its product will be negatively impacted.

Government Regulation

Numerous statutes and regulations govern the manufacture and sale of medical device products in Canada, the United States, Europe and other countries and regions of the world where the Company markets and intends to market its products. The cost of compliance with government regulation is necessary and impacts most of our business. Changes in policies, procedures, systems and staff training required by government regulation can have the effect of increasing the costs we incur to provide our products and services. We manage this risk to the degree possible through active participation in the review and approval process with regulatory bodies such as the FDA and Health Canada. Any failure or delay in obtaining regulatory approvals could adversely affect the Company's ability to utilize its technology, and may adversely affect its operations. We capitalize on such experiences by formalizing the learning into our standards to improve our quality assurance practices and customer quality and services.

Furthermore, it must be noted that product approvals may be withdrawn if problems occur following initial marketing or if compliance with regulatory standards is not maintained. Similar restrictions are imposed in markets other than the United States and Canada. Potential investors should be aware of the risks, problems, delays, expenses and difficulties, which the Company may encounter in light of the extensive regulatory environment in which its business is carried on.

New Accounting Pronouncements

The following is a summary of recent accounting pronouncements that may affect the Company commencing January 1, 2007. The Company is assessing how it will be affected by these pronouncements.

Financial Instruments:

CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, prescribes when a financial asset, liability or non-financial derivative is to be recognized on the balance sheet and the measurement of that amount (fair value or cost based) CICA Handbook Section 3863, Financial Instruments – Presentation, establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. CICA Handbook Section 3862, Financial Instruments – Disclosure, provides disclosure requirements relative to those currently in place, with an emphasis on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the period and at the balance sheet date, and how an entity manages those risks.

Comprehensive Income:

CICA Handbook Section 1530, Comprehensive Income, introduces new standards for presentation and disclosure of comprehensive income. Comprehensive income is the change in equity (net assets) of an enterprise during the reporting period from transactions and other events and circumstances from non-owners sources. It includes all changes in equity during a period, except those changes resulting from investments by owners and distributions to owners. Financial statements for prior periods will be required to be restated for certain comprehensive income items.

Hedges:

CICA Handbook Section 3865, Hedges, clarifies requirements for when an entity can enter into a hedging relationship and it prescribes the method of accounting to be used for the relationship.

Accounting Changes:

CICA Handbook Section 1506, Accounting Changes, stipulates that voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information. In addition, new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors.

Equity:

CICA Handbook Section 3251, Equity, establishes standards for the presentation of equity and changes in equity during the reporting period.

Internal Control Reporting

(a) Multilateral Instrument 52-109

In December 2005, Canadian Securities Administrator ("CSA") Staff Notice 52-311 was issued to assist certifying officers in determining the appropriate form of certificate required under MI 52-109 for various interim and annual filings. In March 2006, the CSA issued Notice 52-313 that it will not proceed with the proposed MI 52-311. Rather, CSA has expanded MI 52-109 to require all reporting issuers to certify in their annual CEO and CFO certifications that they have evaluated the effectiveness of the issuer's internal control over financial reporting. Issuers will be required to disclose, in their annual MD&A their conclusions about the effectiveness of internal controls over financial reporting as of the end of the financial year based on such evaluation. However, issuers will not be required to have management's assessment of the effectiveness of internal controls over financial reporting audited.

For years ending on or after June 29, 2006, issuers are required to certify that the issuer has designed internal controls over financial reporting (versus evaluating the effectiveness of them) and disclose in the MD&A material changes in internal controls over financial reporting that have occurred in the last quarter. On February 9, 2007, the CSA issued notice 52-317 proposing that the certification regarding the evaluation of effectiveness of internal controls over financial reporting would apply in respect of financial years ended on or after June 30, 2008.

(b) Disclosure Controls and Procedures Related to Financial Reporting

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to our management as appropriate to allow timely disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of December 31, 2006, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company are made known to them by others within the Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no

matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

(c) Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the presentation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Executive Officer and Chief Financial Officer are in the process of assessing the design of internal control over financial reporting as at December 31, 2006 and during the process, they have identified certain weaknesses in internal controls over financial reporting. The weaknesses in the Company's internal control over financial reporting, discussed below, result in a more than remote likelihood that a material misstatement may not be prevented or detected on a timely basis.

Management and the board of directors, including the audit committee thereof, work to mitigate the risk of any potential material misstatement in the Company's financial reporting however; there can be no assurance that the risk can be reduced to less than a remote likelihood of a potential material misstatement.

(1) Financial Reporting System

The Company's financial reporting system currently is not integrated. The financial reporting, purchasing/inventory reporting and sales order/customer order reporting are currently on separate systems, which have no integration to one another. There are several spreadsheets and manual data entry that is done to input information into the financial reporting system. This could potentially lead to material misstatement on the financial statements.

Management has identified this issue during 2006 and is in the process of implementing an Enterprise Resource Planning ("ERP") system (SAGE MAS 500) to integrate all aspect of financial reporting into one central system that will incorporate adequate internal controls that are necessary for financial reporting. The Financial Module went live on January 1, 2007 and other Modules (purchasing/inventory reporting and sales order/customer order reporting) will be going live during Q2 2007.

(2) Segregation of Duties

Segregation of duties in the structure of internal control over financial reporting reduces the likelihood of errors and irregularities when one individual does not have responsibility

for more than one of the three components of financial reporting – selecting and applying accounting policies, recording transactions and preparing financial statements, including the notes thereto. When the work of one employee is not checked by another and when the responsibility for recording transactions is not separate from the responsibility for preparing the financial statements, including the notes thereto, there is no appropriate segregation of duties.

The absence of such segregation of duties over financial reporting limits the ability of the internal control over financial reporting to prevent and detect errors on a timely basis and deter improper activities.

Further, such absence of segregation of duties in the structure of internal control over financial reporting could increase the risk of senior management override of the internal control system in place.

In assessing the design of internal control over financial reporting in place management has concluded that certain duties within the finance and administration departments are not properly segregated due to the small number of individuals employed in those areas. In addition, the Management has identified instances where certain employees have the ability to initiate transactions and accounting entries within certain financial reporting applications that are incompatible with their other roles and responsibilities.

At present, the Chief Executive Officer and the Chief Financial Officer oversee all material transactions and related accounting records. In addition, the audit committee of the board of directors reviews, on a quarterly basis, the consolidated financial statements of the Company and queries management about significant transactions. The result is the Company is highly reliant on the performance of mitigating procedures during its financial close process and in order to ensure the financial statements present fairly in all material respects.

Management is currently in the process of hiring a Controller to improve segregation of duties.

(3) Information Technology General Controls

The Management has determined that many of its information systems are subject to general control deficiencies. Although we believe these have not resulted in a misstatement of consolidated financial statements, when aggregated, these deficiencies represent a material weakness in the Company's control environment because of the pervasiveness and significance of the deficiencies.

Specifically these deficiencies are as follows:

- Change management procedures are not well defined and implemented;
- Access controls are not well maintained; and
- Software system currently used for financial reporting does not have absolute controls on reporting

Management is currently implementing a new ERP system to address these issues and is also actively looking at hiring an Information Technology Service company to provide support on establishing these controls and provide more effective disaster recovery plan.

There has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

Outlook

Management believes that the Company has made important advances in its corporate development. The Company's status as an organization with commercial revenues makes the Company more attractive to a larger base of potential shareholders, thereby improving the Company's ability to access capital markets to fund growth. Moreover, management believes that Imaging Dynamics has made significant progress in gaining the acceptance of leading individuals and institutions in the Digital Radiology sector.

Auditors' Report

To the Shareholders of Imaging Dynamics Company Ltd.

We have audited the consolidated balance sheets of Imaging Dynamics Company Ltd. as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

'signed'

Grant Thornton LLP

Chartered Accountants

Calgary, Alberta

March 27, 2007

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Imaging Dynamics Company Ltd.

Consolidated Balance Sheets

As at December 31	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	$ **5,901,192**	$ 5,667,373
Receivables (Note 3)	**21,222,060**	16,053,945
Inventory	**16,556,720**	6,910,871
Prepaids and deposits	**930,053**	3,285,707
	44,610,025	31,917,896
Property, plant and equipment (Note 4)	**1,710,938**	1,317,921
Intangible assets (Note 5)	**278,511**	293,745
Deferred development costs (Note 6)	**782,917**	1,748,844
	$ **47,382,391**	$ 35,278,406
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowing (Note 7)	$ **4,297,033**	$ 2,906,090
Payables and accruals	**15,180,338**	6,669,160
Customer deposits	**580,890**	635,316
Current portion of capital lease obligations (Note 8)	**9,966**	9,988
Current portion of long-term debt (Note 9)	**56,000**	56,000
Warranty liability	**817,873**	465,551
	20,942,100	10,742,105
Capital lease obligations (Note 8)	**19,084**	28,637
Long-term debt (Note 9)	**14,013**	39,013
Deferred lease inducement (Note 10)	**49,600**	74,400
	21,024,797	10,884,155
Shareholders' Equity		
Share capital (Note 11)	**65,466,454**	50,898,031
Contributed surplus (Note 12)	**3,473,709**	2,071,943
Deficit	**(42,582,569)**	(28,575,723)
	26,357,594	24,394,251
	$ **47,382,391**	$ 35,278,406

Description of business (Note 1)
Commitments (Note 21)

On behalf of the Board:

'signed'
Darryl Stein, President and CEO

'signed'
Garry Zurowski, Director

The accompanying notes are an integral part of these consolidated financial statements.

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Imaging Dynamics Company Ltd.

Consolidated Statements of Operations and Deficit

For the year ended December 31	2006	2005
Revenues, net	$ **39,030,402**	$ 28,878,669
Cost of goods sold	**(24,983,024)**	(16,124,096)
Gross Profit	**14,047,378**	12,754,573
Expenses		
Sales and marketing	**9,192,053**	4,389,562
General and administrative	**3,870,636**	2,296,236
Production and manufacturing	**1,847,623**	1,521,724
Research and development	**2,360,160**	1,541,369
Foreign exchange (gain) loss	**(161,825)**	2,854
Warranty	**890,433**	654,511
Stock-based compensation	**1,593,263**	588,632
Bad debts	**1,094,339**	-
Amortization of property, plant and equipment	**398,722**	289,718
Amortization of deferred development costs	**484,769**	172,522
Amortization of intangible assets	**35,837**	28,843
Interest	**329,725**	130,895
	21,935,735	11,616,866
(Loss) income before interest and other items	**(7,888,357)**	1,137,707
Inventory write-down	**(4,776,213)**	-
Deferred development costs write down (Note 6)	**(1,663,507)**	-
Interest and other income	**321,231**	210,777
Net (loss) income	$ **(14,006,846)**	$ 1,348,484
Net (loss) income per share (Note 15)		
Basic	$ **(0.25)**	$ 0.03
Diluted	$ **(0.25)**	$ 0.02
Deficit, beginning of year	$ **(28,575,723)**	$ (29,924,207)
Net (loss) income	**(14,006,846)**	1,348,484
Deficit, end of year	$ **(42,582,569)**	$ (28,575,723)

The accompanying notes are an integral part of these consolidated financial statements.

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Imaging Dynamics Company Ltd.

Consolidated Statement of Cash Flows

For the year ended December 31	2006	2005
Increase (decrease) in cash and cash equivalents are as follows:		
Cash flows from operating activities		
Net (loss) income	$ (14,006,846)	$ 1,348,484
Items not affecting cash		
Amortization of deferred lease inducement	(24,800)	(49,600)
Amortization	919,328	491,083
Deferred development costs write down	1,663,507	-
Stock-based compensation	1,593,263	588,632
Warranty	352,322	292,222
	(9,503,226)	2,670,821
Change in non-cash working capital (Note 16)	(4,001,557)	(13,317,336)
	(13,504,783)	(10,646,515)
Cash flows from financing activities		
Proceeds from share issuances, net	14,376,926	8,688,278
Repayment of capital lease obligation	(9,575)	(15,087)
Short-term borrowing, net	1,390,943	2,906,090
Repayment of long-term debt	(25,000)	(925,000)
	15,733,294	10,654,281
Cash flows used in investing activities		
Deferred development costs additions	(1,182,349)	(681,788)
Intangible asset additions	(20,604)	(144,395)
Property, plant and equipment additions	(791,739)	(1,541,712)
	(1,994,692)	(2,367,895)
Net increase (decrease) in cash and cash equivalents	233,819	(2,360,129)
Cash and cash equivalents		
Beginning of year	5,667,373	8,027,502
End of year	$ 5,901,192	$ 5,667,373

The accompanying notes are an integral part of these consolidated financial statements.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2006

1. Description of business

Imaging Dynamics Company Ltd. (the "Company") is a public company incorporated under the laws of the Province of Alberta. The Corporation is listed on the Toronto Stock Exchange, trading under the symbol "IDL".

The Company's technology, marketed under the brand name "Xplorer", "Xaminer" and under other private labels, produces digital diagnostic images. Its purpose is to replace the need for film and chemical film processing as well as the storage and retrieval costs normally associated with traditional x-ray technology.

2. Significant accounting policies

(a) Basis of presentation

These financial statements consolidate the accounts of the Company and its wholly-owned subsidiaries. All inter-company account balances and transactions have been eliminated. These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations. For the year ended December 31, 2006, the Company has a net loss of $14,006,846 (net income of $1,348,484 for the year ended December 31, 2005) and a negative cash flow from operating activities of $9,503,226 (positive cash flow from operating activities of $2,670,821 for the year ended December 31, 2005). As a result of recurring losses over the Company's history, the Company has a deficit of $42.58 million as at December 31, 2006 ($28.58 million as at December 31, 2005).

The ability of the Company to continue as a going concern may depend on raising additional financing and achieving profitable operations sufficient to meet all obligations.

Although in the opinion of Management the use of the going concern assumption is appropriate, there can be no assurance that any steps Management is taking will be successful.

These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

(b) Measurement uncertainty

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from and affect the results reported in these consolidated financial statements and those differences could be material.

2. Significant accounting policies (Continued)

Amounts recorded for stock-based compensation are based on management's estimates of share price volatility and the expected life of the options. Warranty accruals are based on management's estimates of a percentage of the cost of sales which incorporates past historical product warranty information. The amortization periods of deferred development costs are based on management's estimates of future sales of specific product lines and a reasonable time line for the products replacement. By their nature, these estimates are subject to uncertainty and the impact on the consolidated financial statements of future periods could be material.

(c) Cash and cash equivalents

Cash and cash equivalents consist of deposits in banks, redeemable deposits and short-term investments with initial maturities of three months or less.

(d) Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Inventory consists of raw material, purchased product and demonstration units.

(e) Property, plant, equipment and intangibles

Property, plant and equipment is recorded at cost and amortized over their estimated useful lives at the following annual rates and methods.

Intangible assets are stated at cost less accumulated amortization and are comprised of licenses and patents. Intangible assets are subject to annual impairment test whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Patent	10 years straight-line
Software	30% declining balance
Technical, lab and computer equipment	30% declining balance
Office equipment	20% declining balance
Tradeshow equipment	4 years straight-line
Leasehold improvements	Straight-line over lease term

Imaging Dynamics Company Ltd.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2006

(f) Revenue recognition

Revenue is recognized when the Company's product is shipped, the title is transferred and collection is reasonably assured.

Substantially all the revenue earned is the result of equipment sales. To date, very little revenue is derived through parts and or service. Revenue with respect to the performance of services is recognized when the services are performed and collection is reasonably assured.

The Company uses an indirect distribution strategy whereby substantially all of the Company's revenues are earned through dealers, distributors and original equipment manufacturer (OEM) partners. The Company may offer extended terms to the dealers as closing incentives and to assist them in long sale cycle situations. The dealers and OEM's are responsible for installation and after sales service to the end user. Once the equipment is shipped and title has transferred to the dealer or OEM (FOB Company shipping point), the Company does not have any contractual obligation to ensure the equipment's proper installation and functioning. The only ongoing obligation of the Company is to provide a parts only warranty on manufacturing defects and the warranty is only extended to the dealer. The Company has a no return policy but does consider returns on a case by case basis and has accepted returns in acts of god situations and where a dealer has up sold the end user to a higher model. Deposits received prior to shipment are reflected as deferred revenue.

(g) Research and development

Research costs are expensed as incurred. Development costs are expensed unless they meet certain criteria related to technical, financial and market feasibility, in which case they are deferred and amortized over 3 to 4 years on a straight line basis commencing with commercial production.

(h) Foreign currency

Transactions and non-monetary balances denominated in a foreign currency are translated into Canadian dollars using the exchange rates at the dates of the transactions. Monetary balances are translated using the rate at the date of the balance sheet. The accounts of the Company's foreign subsidiaries' are considered integrated and therefore translated into Canadian dollars under the temporal method of accounting whereby monetary items are translated at exchange rates in effect at the balance sheet date and non-monetary items translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the statement of operations and deficit.

2. Significant accounting policies (Continued)

(i) Stock-based compensation plan

The Company has a stock option plan that is described in note 13. The fair value of any stock options granted to directors, officers and employees is recorded as an expense over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of the stock-based compensation is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in note 13. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(j) Financial instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, short-term borrowings, payables and accruals and long-term debt. The fair value of these financial instruments approximate their carrying values, unless otherwise noted. The fair value of the unsecured non interest bearing loans payable is not determinable.

The Company uses financial instruments for non-trading purposes to manage fluctuations in foreign currency exchange rates, as described in Note 18. The Company has elected not to designate any of its current risk management activities as accounting hedges and accounts for all derivative financial instruments using the mark-to-market accounting method.

(k) Income taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, current income taxes are recognized for the estimated income tax payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting basis of assets and liabilities and the benefit of losses and other deductions carried forward for tax purposes that are more than likely to be realized. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the date of enactment or substantive enactment.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2006

2. Significant accounting policies (Continued)

(l) Warranty

Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information relating to the nature, frequency and average cost of warranty claims.

(m) Per share amounts

Basic net (loss) income per common share is computed by dividing the net (loss) income by the weighted average number of common shares outstanding for the year. Diluted net (loss) income per common share is computed by dividing net (loss) income by the diluted weighted average number of common shares outstanding for the year. In the calculation of diluted per share amounts, options under the stock option plan are assumed to have been converted or exercised on the later of the beginning of the year and the date granted. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. In net loss per share situations, the diluted per share amount is the same as that for basic, as all factors are anti-dilutive.

3. Receivables

	2006	2005
Trade receivables	$ **20,506,715**	$ 15,747,310
Other receivables	**715,345**	306,635
	$ **21,222,060**	$ 16,053,945

Allowance for doubtful accounts of $872,660 (2005 – Nil) has been netted against trade receivables.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2006

4. Property, plant and equipment

December 31, 2006	Cost	Accumulated amortization	Net book value
Technical, lab and computer equipment	$ 1,767,884	$ 1,140,404	$ 627,480
Leasehold improvements	38,016	5,845	32,171
Office equipment	496,574	217,129	279,445
Software	374,610	40,909	333,701
Tradeshow equipment	605,272	167,131	438,141
	$ 3,282,356	$ 1,571,418	$ 1,710,938

December 31, 2005	Cost	Accumulated amortization	Net book value
Technical, lab and computer equipment	$ 1,559,098	$ 954,327	$ 604,771
Leasehold improvements	-	-	-
Office equipment	473,560	150,662	322,898
Software	73,214	10,731	62,483
Tradeshow equipment	384,745	56,976	327,769
	$ 2,490,617	$ 1,172,696	$ 1,317,921

Included in technical, lab and computer equipment and office equipment are capital leases with a net book value of $12,145 (2005 - $17,350) and $13,367 (2005 - $19,095).

Included in software is Enterprise Resource Planning (ERP) software costs of $269,914 (2005 - Nil) that has not been implemented and hence has not been amortized during the period.

5. Intangible assets

December 31, 2006	Cost	Accumulated amortization	Net book value
Digital X-ray technology patents	$ 386,748	$ 108,237	$ 278,511

December 31, 2005	Cost	Accumulated amortization	Net book value
Digital X-ray technology patents	$ 366,144	$ 72,399	$ 293,745

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2006

6. Deferred development costs

December 31, 2006	Cost	Accumulated amortization	Net book value
Xplorer tools, dies, molds and design	$ 1,121,040	$ 840,780	$ 280,260
Xaminer tools, dies, molds and design	2,010,632	1,507,975	502,657
	$ 3,131,672	$ 2,348,755	$ 782,917

December 31, 2005	Cost	Accumulated amortization	Net book value
Xplorer tools, dies, molds and design	$ 863,308	$ 200,479	$ 662,829
Xaminer tools, dies, molds and design	1,086,015	-	1,086,015
	$ 1,949,323	$ 200,479	$ 1,748,844

Included in the accumulated amortization is one time write down of $1,663,507 (2005 – Nil) as a result of introducing new product line during 2007. The balance of the deferred development costs will be fully amortized during 2007.

7. Credit facilities

The Company has a revolving credit facility with a Canadian Chartered Bank for $6.5 million, which can be utilized as overdraft or in the form of banker's acceptances. The facility allows for a borrowing limit up to the aggregate of 75% of accounts receivable acceptable to the bank, 90% of Export Development Canada insured accounts receivable and 50% of inventory up to $1,000,000. Interest is charged at the bank's prime plus 1.50% on overdraft with fees on letters of guarantee and banker's acceptances quoted at the time of issue plus a stamping fee of 3% per annum.

The agreement also includes a foreign exchange facility to provide a credit limit to purchase forward exchange contracts up to an aggregate of $3,000,000 US, with a maximum of 12 months.

The revolving credit facility is secured by a general security agreement, first ranking from the Company in favor of the bank, assignment/endorsement by the Company to the bank of all risk insurance in amounts and from an insurer acceptable to the bank and security over cash, credit balances and deposit endorsements.

As at December 31, 2006, $4,297,033 (2005 – $2,906,090) remained outstanding.

8. Capital lease obligations

The Company is party to various capital leases for office equipment with expiry dates up to August 2009. The future minimum lease payments under the capital leases are as follows:

	2006	2005
2006	$ -	$ 14,426
2007	13,159	13,159
2008	13,159	13,159
2009	8,097	8,097
	34,415	48,841
Less imputed interest	(5,365)	(10,216)
	29,050	38,625
Less current portion	(9,966)	(9,988)
	$ 19,084	$ 28,637

The average effective monthly interest rate of the capital lease obligations is approximately 1.08% (2005 – 1.2%).

9. Long-term debt

	2006	2005
Unsecured loan, non-interest bearing and payable in annual installments equal to the lesser of 5% of gross sales or $25,000 per annum	$ 39,013	$ 64,013
Unsecured loan, non-interest bearing and payable in annual installments equal to 4% of gross sales	31,000	31,000
	70,013	95,013
Less current portion	(56,000)	(56,000)
	$ 14,013	$ 39,013

Imaging Dynamics Company Ltd.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2006

10. Non-monetary transaction

During 2005, the Company agreed to remove a condition from its existing office lease and in compensation for this action, the landlord transferred title of furniture and equipment located in the premises to the Company. The fair market value of the furniture and equipment was appraised at $124,000. This amount has been recorded as a capital asset and as a deferred lease inducement on the balance sheet. The lease inducement will be recognized over the life of the lease. To date, $74,400 (2005 - $49,600) has been amortized and recorded as a reduction of rental expense included within general and administrative on the consolidated statement of operations and deficit.

11. Share capital

a) Authorized

An unlimited number of common shares
Non-voting redeemable preferred shares without demand
or par value and which do not deem an entitlement to dividends

b) Issued and outstanding

	December 31 2006		December 31 2005	
	Number of Shares	**Amount**	Number of Shares	Amount
Beginning of year	**53,693,504**	**$ 50,898,031**	49,315,336	$ 42,042,884
Issued for cash	**4,285,715**	**15,000,002**	4,000,000	8,800,000
Exercise of options	**481,768**	**598,490**	378,168	420,997
Share issue costs	**-**	**(1,030,069)**	-	(365,850)
End of year	**58,460,987**	**$ 65,466,454**	53,693,504	$ 50,898,031

Imaging Dynamics Company Ltd.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2006

11. Share Capital (Continued)

c) On April 12, 2006, the Company closed an agreement with a syndicate of underwriters to sell 2,857,143 special warrants at an issue price of $3.50 per warrant for aggregate gross proceeds of $10,000,000. As part of the agreement, the Company has granted the underwriters an option to purchase 1,428,572 additional special warrants at an issue price of $3.50 per warrant for aggregate gross proceeds of $5,000,002. Each special warrant is exercisable into one common share of the Company with no additional cost. On January 13, 2006, the syndicate of underwriters exercised their option to purchase the additional special warrants.

Proceeds from the offering were used to fund expansion of the Company's sales and marketing initiatives in the United States and internationally, working capital to fund growth and for new product development.

d) On March 15, 2005, the Company closed an agreement with a syndicate led by Sprott Securities Inc. ("Sprott") pursuant to which the syndicate purchased 4,000,000 common shares on an underwritten private placement basis, at a price of $2.20 per common share for aggregate gross cash proceeds to the Company of $8.8 million.

The Agents for this financing received a cash commission equal to 3% of the aggregate proceeds with respect to the sale of the shares.

The Company used the proceeds for expanding the distribution channels in the U.S., Europe and Asia, developing further product lines based on the core technology and for general working capital.

e) On April 15, 2005, the Company received final approval of the TSX Venture Exchange to the amendment of the outstanding escrow agreement, which was approved by the shareholders of the Company on December 9, 2004. Pursuant to the amendment, the 1,080,000 common shares of the Company held in escrow were released from escrow as to 540,000 common shares on June 14, 2005, 270,000 common shares on December 9, 2005 and 270,000 common shares on May 9, 2006.

12. Contributed surplus

The following table presents the reconciliation of contributed surplus with respect to stock-based compensation:

	2006	2005
Beginning of year	$ **2,071,943**	$ 1,650,179
Stock-based compensation expense	**1,593,263**	588,632
Fair value of options exercised	**(191,497)**	(166,868)
End of year	$ **3,473,709**	$ 2,071,943

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2006

13. Stock-based compensation

The Company has established a stock-based compensation plan for its directors, officers, employees, consultants and other key personnel. Under the Stock Option Plan, the Company may grant up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option is determined by the market price of the Company's stock on the date of the grant and an option's maximum term is 5 years. Options generally vest over three to five years. As at December 31, 2006, 152,445 (2005 – 163,682) options remained in reserve for granting.

Under the stock option plan, the following options were granted by the Company and are outstanding as at the following dates:

	December 31 2006			December 31 2005		
	Number of Options		**Weighted Average Exercise Price**	Number of Options		Weighted Average Exercise Price
Options outstanding,						
Beginning of year	**5,205,668**	**$**	**1.47**	4,057,586	$	0.96
Granted	**1,594,000**	**$**	**2.88**	1,526,250	$	2.65
Exercised	**(481,768)**	**$**	**0.84**	(378,168)	$	0.67
Cancelled	**(624,246)**	**$**	**2.44**	-	$	-
End of year	**5,693,654**	**$**	**1.81**	5,205,668	$	1.47
Options exercisable at end of period	**3,413,546**	**$**	**1.20**	3,232,520	$	0.93

The following table summarizes information about the Company's Stock option plan as at December 31, 2006:

	Options Outstanding				Options Exercisable		
Range of exercise price in dollars	Number Outstanding	Weighted Average Remaining Contractual Life (Months)		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
0.01 to 0.99	1,575,485	13.3	$	0.45	1,575,485	$	0.45
1.00 to 1.99	1,595,669	33.4	$	1.63	1,413,560	$	1.62
2.00 to 2.99	2,135,500	53.2	$	2.58	415,834	$	2.63
3.00 to 3.99	277,000	49.8	$	3.49	8,667	$	3.04
4.00 to 4.99	55,500	52.9	$	4.61	-	$	-
5.00 to 5.99	54,500	51.0	$	5.23	-	$	-
	5,693,654	36.4	$	1.81	3,413,546	$	1.20

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2006

13. Stock-based compensation (Continued)

The follow table summarizes the assumptions used in the Black-Scholes option-pricing model for purposes of the option calculations:

	2006	2005
Dividend yield	**0.0%**	0.0%
Expected volatility	**111.2%**	106.0%
Risk-free interest rate	**3.9%**	3.6
Expected life (years)	**5.0**	4.0
Weighted average fair value of options	**$ 2.294**	$ 1.890

14. Income taxes

The income tax expense differs from the amounts which would be obtained by applying the expected income tax rate of 32.12% (2005 – 33.6%) as follows:

	2006	2005
Computed expected tax expense (recovery)	**$ (4,498,999)**	$ 453,360
Stock-based compensation	**511,756**	197,898
Use of future assets not previously recognized	**-**	(365,953)
Change in valuation allowance and tax rate changes	**3,987,243**	(285,305)
	$ -	$ -

The components of the Company's future income tax assets at December 31 are as follows:

	2006	2005
Property, plant and equipment	**$ 422,833**	$ 398,565
Deferred development costs	**(227,046)**	(587,961)
Share issues costs	**382,501**	292,330
Non-capital losses	**9,187,354**	6,784,641
Other	**22,809**	37,999
Research and development costs	**1,864,772**	2,593,146
Warranty	**237,183**	156,518
	11,890,406	9,675,238
Valuation allowance	**(11,890,406)**	(9,675,238)
	$ -	$ -

14. Income taxes (Continued)

The Company has non-capital losses for income tax purposes in Canada of approximately $30,780,000 which are available to be applied against future years' taxable income. The benefit of these non-capital losses has not been recognized in the consolidated financial statements. These losses will expire as follows:

2007	$ 4,469,000
2008	4,744,000
2009	3,359,000
2014	1,032,000
2015	6,076,000
2027	11,100,000
	$ 30,780,000

As at December 31, 2006, the Company has net operating losses for income tax purposes in the Netherlands of approximately $900,000 (2005 - $500,000). The benefit of these non-capital losses has not been recognized in the consolidated financial statements.

15. Per share amounts

The following table presents the reconciliation between basic and diluted income per share:

	2006	2005
Net (loss) Income	**$ (14,006,846)**	$ 1,348,484
Weighted average number of common shares outstanding:		
Basic	**57,043,359**	52,765,583
Impact of stock options assumed exercised	**2,841,275**	2,232,063
Diluted	**59,884,634**	54,997,646
Per share amounts		
Basic	**$ (0.25)**	$ 0.03
Diluted	**$ (0.25)**	$ 0.02

In calculating diluted common share amounts for the year ended December 31, 2006, the Company excluded 258,949 options (2005 – 1,156,250) because the exercise price was greater than the average market price of its common shares in that year.

16. Supplementary cash flow information

Change in non-cash working capital:

		2006		2005
Receivables	$	**(5,168,115)**	$	(10,155,828)
Inventory		**(9,645,848)**		(4,411,634)
Pre-paids and deposits		**2,355,654**		(1,780,307)
Payables and accruals		**8,511,178**		2,713,367
Customer deposits		**(54,426)**		317,066
	$	**(4,001,557)**	$	(13,317,336)

Other information

		2006		2005
Interest paid	$	**329,725**	$	130,895
Interest received	$	**183,649**	$	210,777

Cash and cash equivalents are comprised of the following balances:

		2006		2005
Cash accounts	$	**3,412,584**	$	5,667,373
Short-term deposits		**2,488,608**		-
	$	**5,901,192**	$	5,667,373

17. Related party transactions

During the year, the Company had the following transactions with related parties. These transactions were measured at the exchange amounts that were the amount of consideration established and agreed upon by the related parties that in management's opinion approximated fair market value.

(a) Incurred consulting expenses in the amount of $49,963 (2005 - $67,505) to a company with common directors, of which $36,007 (2005 - $33,581) is included in payables and accruals. These costs have been included in general and administrative expenses on the consolidated statements of operations and deficit.

(b) The Company paid legal costs in the amount of $216,414 (2005 - $169,853) to a Director's law firm, of which $26,828 (2005 - $71,147) is included in payables and accruals. These costs have been included in general and administrative expenses on the consolidated statements of operations and deficit.

(c) Incurred consulting expenses in the amount of $45,800 (2005 - $129,680) to a company with common management, of which $Nil (2005 - $7,704) is included in payables and accruals. These costs have been included in research and development expenses on the consolidated statements of operations and deficit.

18. Financial instruments

The Company is exposed to fluctuations in interest rates and currency exchange rates. The Company, when appropriate, may utilize financial instruments to manage its exposure to these risks.

Interest rate risk

The Company is exposed to changes in interest rates as a result of the demand loan, bearing interest of the Company's lenders' prime rate.

Foreign currency risk

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar, and other currencies with respect to assets, sales and purchases. The Company monitors fluctuations and takes action, if deemed necessary to mitigate its risks.

On October 5, 2005, the Company entered into a forward foreign exchange contract for $3.5 million U.S. at an exchange rate of 1.1798 and maturing on January 5, 2006. As at December 31, 2005, the contract resulted in an unrealized gain of $71,050. This amount has been grouped within accounts receivable on the consolidated balance sheet and netted against the foreign exchange loss on the consolidated statement of operations and deficit.

On January 6, 2006, the Company entered into a forward foreign exchange contract for 19.7 million Japanese Yen at an exchange rate of 112.99 and maturing on January 16, 2007. As at December 31, 2006, the contract resulted in an unrealized loss of $8,859. This amount has been grouped within payables and accruals on the consolidated balance sheet and netted against the foreign exchange gain on the consolidated statement of operations and deficit.

Credit risk

Accounts receivable include amounts receivable for normal terms and extended terms, which are generally made to credit worthy purchasers. The Company uses an indirect distribution strategy whereby substantially all of the Company's revenues are earned through dealers, distributors and OEM partners. The Company may offer extended terms to the dealers as closing incentives and to assist them in long sale cycle situations. Most of the Company's distribution partners have income streams from various sources and have an established history of providing goods and services to the health care industry. The Company does not usually sell to the end user and as such has limited recourse in collecting any delinquent balances. In cases where collection is in question, the Company has the ability to remotely disable the equipment (in cases where an end user has not paid), not provide any warranty support or warranty parts to a dealer that has not paid, remove the dealer as qualified IDC dealer as well as any and all legal recourse measures. Accordingly, the Company views credit risks on these amounts as low and as normal course of business. However, an allowance for doubtful accounts of $872,600 (Note 3) has been provided during the year.

The Company is exposed to losses in the event of non-performance by counter-parties to these consolidated financial instruments. The Company deals with major institutions and believes these risks are minimal.

Imaging Dynamics Company Ltd.

Notes to the Consolidated Financial Statements

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19. Segmented information

The Company is organized into five sales geographic areas consisting of the United States, Asia/Pacific, Europe, Latin America and Canada. The Company sells through dealers and distributors in the United States and Canada and predominantly through OEM partners in Asia/Pacific, Europe and Latin America.

2006	**Asia Pacific**	**Canada**	**Europe**	**Latin America**	**United States**	**Total**
Revenue	**$ 7,336,878**	**$ 1,272,161**	**$ 4,145,465**	**$ 3,625,398**	**$ 22,650,500**	**$ 39,030,402**
Property, plant and equipment	**$ -**	**$ 1,704,767**	**$ 6,171**	**$ -**	**$ -**	**$ 1,710,938**

2005	Asia Pacific	Canada	Europe	Latin America	United States	Total
Revenue	$ 5,033,158	$ 2,636,119	$ 2,482,713	$ -	$ 18,726,679	$ 28,878,669
Property, plant and equipment	$ -	$ 1,304,929	$ 12,992	$ -	$ -	$ 1,317,921

20. Significant customers and vendors

The following customers individually represent more than 10% of revenue:

	2006		2005	
	% of revenue	**% of receivables**	% of revenue	% of receivables
Customer A	**18.9**	**17.1**	29.0	29.8
Customer B	**4.1**	**4.8**	10.0	-
Customer C	**13.2**	**8.1**	3.2	3.9

Many of the participants in this industry are well established multinational corporations that have significantly larger customer bases and as such would not generally have the concentration of customers similar to that of the Company. The following vendors individually represent more than 10% of costs of goods sold:

	2006		2005	
	% of cost of goods sold	**% of accounts payable**	% of costs of goods sold	% of accounts payable
Vendor A	**3.7**	**3.3**	10.8	10.7
Vendor B	**33.0**	**43.4**	13.5	28.6
Vendor C	**8.9**	**5.3**	11.1	2.3
Vendor D	**16.6**	**8.9**	25.5	10.2

Imaging Dynamics Company Ltd.
Notes to the Consolidated Financial Statements
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21. Commitments

The Company is committed to the following payments:

	Facility	Vehicle	Product	Total
2007	$ 328,120	$ 21,623	$ 13,346,219	$ 13,695,962
2008	277,751	21,623	17,150,388	17,449,762
2009	136,587	19,594	4,002,974	4,159,155

Product commitments relate to contractual obligations entered into by the Company to secure production schedules of third party suppliers.

22. Comparative amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation.

Imaging Dynamics Company Ltd.
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[2] Chairman, Compensation Committee
[3] Chairman, Audit Committee

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